

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE FEBRUARY 11, 2009 PENSION BOARD MEETING

1. Call to Order

Chairman Dr. Dean Roepke called the meeting to order at 8:40 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

The meeting started without a quorum present, as only four Pension Board members were present. The Chairman proceeded with agenda items requiring no action by the Pension Board pending the necessary quorum.

2. Attendance

Members Present:

Mickey Maier
Marilyn Mayr
Dr. Sarah Peck
Dr. Dean Roepke (Chairman)

Members Excused

Donald Cohen
Roy Felber
Jeffrey Mawicke

Others Present:

David Arena, Director of Employee Benefits, Department of Administrative Services
Gerald Schroeder, ERS Manager
Mark Grady, Principal Assistant Corporation Counsel
Jerry Heer, Director of Department of Audits
Gordon Mueller, Fiscal Officer
Dale Yerkes, Assistant to the Fiscal Officer
Vivian Aikin, ERS Administrative Specialist
Scott Manske, Controller, Department of Administrative Services
Steven Kreklow, Fiscal and Budget Administrator, Department of Administrative Services
Sushil Pillai, V3 Project Manager
Bess Frank, Ad Hoc Oversight Committee
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Mellysa Kaniok, Adams Street Partners
John Gray, Adams Street Partners
Brett Christenson, Marquette Associates, Inc.
Ray Caprio, Marquette Associates, Inc.
Ken Loeffel, Retiree
Adeline O'Malley, Retiree
Yvonne Mahoney, Retiree
Steve Schultze, Reporter, *Milwaukee Journal Sentinel*

3. Chairman's Report

The Chairman reported on the NCPERS Legislative Conference in Washington D.C. He described legislation under discussion that would allow public pension funds to purchase preferred stock of companies receiving TARP funds. He indicated that the federal government would guarantee 8.5% investment returns on these investments. He noted that the legislation has a sponsor in the House of Representatives, but needs a sponsor in the Senate. The Chairman stated that he met with Senator Herb Kohl and Congressman Paul Ryan at the conference.

4. Reports of Employee Benefits Director, ERS Manager and Fiscal Officer

(a) Retirements Granted

Mr. Schroeder presented the Retirements Granted Report for January 2009. He reported that 14 retirements were granted in January, noting that 2 retirees elected back DROPs in amounts totaling \$169,020. He stated that this is the first report generated by the V3 System. He reported that the numbers were manually cross-checked to ensure accuracy. Mr. Schroeder indicated that he hopes that the V3 System will be able to generate the report without a need for the Retirement Office to cross-check the report next month. He stated that he wants to develop a demographic report in the next several months to provide a profile of ERS retirees.

(b) ERS Monthly Activities Report

Mr. Schroeder presented the monthly activities report for January. He indicated that ERS has 7,310 retirees and paid benefits of \$11,377,853 in January. He reported that over 28,000 documents were imaged in January.

(c) Board Elections – February 2009 – Update

Mr. Schroeder presented the results of the February 5, 2009 employee member primary election. He reported that most people liked the online voting system and that there were few complaints with the system. He stated that the results were monitored hourly and the results were finalized quickly. Mr. Schroeder indicated that Rex Queen, Guy Stuller and Keith Garland received the most votes and will be on the ballot for the final election for the two employee member positions which will be held on February 19. He stated that he wants a high turnout for the final election. He indicated that the Retirement Office will refresh the voter list and the ballot, and send e-mail blasts to all County employees and department heads to encourage voting.

Mr. Schroeder reported that a new Communicator newsletter was sent out with responses to frequently asked questions regarding online voting and V3 issues. In response to a question from Ms. Mayr, Mr. Schroeder reported that 729 people

voted in the primary election, which represents a 44% increase in the number of voters from the 2008 final election. Mr. Schroeder stated that he expects a higher voter turnout in the final election. Ms. Mayr reported that the voter turnout seems low, noting that over 50% of the retirees vote in the retiree elections.

(d) 2009 Annual Audit - Update

Mr. Schroeder discussed the process for the annual ERS and OBRA audit. He reported that Virchow Krause performed some preliminary audit fieldwork between January 7-9 and the audit is scheduled to begin between April 6-17. He indicated that the auditors will review approximately 90 cases and will also examine the V3 System screen shots and compare them to the information contained on the old system. He noted that Virchow Krause will provide its recommendations to the Retirement Office by June 10 and will request a response to its recommendations by June 22.

Ms. Mayr requested that Mr. Schroeder prepare written timelines and reports regarding the status of the audit. Mr. Maier agreed with Ms. Mayr that a written status report should be provided to the Pension Board on the progress of ERS's responses to any internal control issues raised by the auditors. Mr. Mueller stated that the audit process remains the same as it was in the past. In response to a question from Ms. Mayr, Mr. Mueller stated that the auditors would be willing to meet with the Pension Board or the Audit Committee to discuss the results of the audit. The Chairman indicated that the Audit Committee will be re-established when the Pension Board is at full capacity.

(e) Cash Flow Report

Mr. Mueller presented the cash flow report. He indicated that he removed \$4.5 million from the projection, representing the June 2009 County contribution. He stated that he received a detailed memorandum from Mr. Manske explaining that the \$4.5 million initially allocated to ERS is needed for the initial stabilization fund established for the pension obligation bonds. Ms. Mayr stated that she believes the County is withholding \$4.5 million from ERS, causing a shortage of the pension fund. The Chairman indicated that Ms. Riley researched this issue at his request.

Ms. Riley discussed the County's ability to use the \$4.5 million to fund the stabilization fund. She indicated that the County Board agreed to make a \$22 million contribution to ERS and committed another \$17 million over which it retained discretion. One of the three possible uses for the \$17 million is the establishment of the stabilization fund. Ms. Riley concluded, and Mr. Grady agreed, that the County could allocate the \$4.5 million to the stabilization fund. Mr. Grady pointed out that \$4.5 million will be considered a contribution shortfall,

which will be amortized over 5 years. In response to a question from Ms. Mayr, Mr. Grady and Ms. Riley stated that the County could contribute nothing to ERS and amortize the shortfall over 5 years.

In response to a question from Dr. Peck, Mr. Arena stated that the County does not need to make contributions towards the current year's shortfall in the following year, and pointed out that next year's shortfall could then be amortized over another 5 years. In response to a question from Ms. Riley, Mr. Mueller and Mr. Grady stated that the Pension Board has no responsibility for, or authority over, investment of the assets in the stabilization fund.

5. Investment Manager Report – Adams Street Partners

Ms. Kaniok and Mr. Gray distributed a report on Adams Street Partners' ("Adams Street") management of ERS's venture capital strategy and presented it to the Pension Board on behalf of Adams Street. Ms. Kaniok reported that Adams Street is financially sound and has had a successful capital raise over the past three months despite the difficult economic environment. She stated that Adams Street has been 100% employee owned since August 2008 when it purchased a minority interest from UBS. She commented that Adams Street is committed to the success of its clients because it is 100% employee owned.

Ms. Kaniok noted that Adams Street has clients worldwide and invests globally. She stated that Adams Street's headquarters are in Chicago, but it has additional offices in Menlo Park, California, London and Singapore. She stated that Adams Street will continue to add offices as needed. She indicated that Adams Street has been hiring new employees despite the economy.

Mr. Gray discussed how Adams Street constructs an investment portfolio. He pointed out that Adams Street currently has uninvested capital, which is an advantage when access to capital is tight as it currently is. He stated that Adams Street is focusing on purchasing secondary market investments from endowments, financial institutions and institutions that are struggling with liquidity. He indicated that Adams Street is seeing between 30% and 85% discounts on mature portfolios of 60% to 80% funded entities. He noted that larger discounts are currently available on these vehicles.

Mr. Gray stated that ERS is investing in Adams Street's 2009 Global Offering, which will be invested ratably over four years. He discussed how the 2009 Global Offering will be invested in 60% domestic investments and 40% foreign investments over the four years.

Ms. Bedford arrived at the meeting.

Mr. Gray reviewed the target allocations for the upcoming investment period. He explained that Adams Street traditionally has been underweight in the buyout area. He

stated that buyout firms have the most leverage and are where investors are seeing the biggest discounts. He noted that venture capital firms are now inviting Adams Street to invest, when these firms previously only asked endowments to invest. The Chairman asked how Adams Street is assessing growth in this economic environment. Mr. Gray stated that for secondary market investments, Adams Street is looking at the underlying companies, which are easier to value. He noted that Adams Street analyzes the focus of the business and the track record of the company's performance. He indicated that when Adams Street invests in a blind pool investment with no track record, Adams Street looks at the leverage, specialties, the due diligence of managers and the ability of the investor to deliver on promises. In response to a question from Mr. Maier, Mr. Gray stated that financing is available for direct investing but not for leveraged buyouts.

Mr. Gray discussed the performance of the ERS portfolios managed by Adams Street. He noted that there is a lag in financial reporting for private equity. Ms. Kaniok pointed out that the September 30, 2008 numbers are the latest actual numbers available. She indicated that the December 31, 2008 figures are estimates. Mr. Gray stated that Adams Street is still waiting for the year-end financial figures from its underlying investments. Ms. Mayr commented that she would like an update when the actual December 31, 2008 figures are available. Ms. Kaniok offered to e-mail the estimated December 31, 2008 amounts to the Pension Board and provide the actual figures when Adams Street receives them, probably in March. She stated that Adams Street expects between a 10% to 15% write down of values in the fourth quarter.

In response to a question from Ms. Bedford, Ms. Kaniok stated that the 8.94% internal rate of return ("IRR") figure is gross of fees. In response to Ms. Bedford's follow-up question, Ms. Kaniok stated that the IRR net of fees is 8.18%. Ms. Kaniok explained the portfolios' composition, noting that the "old" portfolio was created by Milwaukee County, but Adams Street was given management authority of this portfolio. She pointed out that the old portfolio is 93% drawn down, and has an IRR of 5.67%, which is bringing down the portfolios' overall IRR. In response to a question from Dr. Peck, Mr. Gray stated that IRR is calculated on a cash-in, cash-out basis. In response to another question from Dr. Peck, Mr. Gray and Ms. Kaniok stated that total value factors in distributions.

Mr. Gray provided a market overview. He indicated that private equity returns will be challenged over the next few years. He noted that some companies will be more attractive as a result of the market downturn. He stated that Adams Street is building diversified portfolios at the asset, manager and subclass levels.

In response to a question from the Chairman, Mr. Gray discussed forced exits. Mr. Gray stated that Adams Street never wants to have a forced exit. He indicated that Adams Street judges the cash burn rate at companies and wants to see companies with enough cash to fund operations longer than one year due to the credit crunch. He commented that Adams Street would hate to be forced to sell the underlying companies.

Ms. Kaniok stated that Adams Street will be holding a client conference on June 3 and 4, 2009 at the Four Seasons in Chicago. She indicated that various venture capital and buyout managers will be presenting, and between 100-150 limited partners are expected to attend.

In response to a question from Mr. Christenson, Mr. Gray stated that Adams Street will provide ERS with an estimate of quarter-by-quarter capital call amounts. Mr. Gray stated that ERS will have at least ten days' notice before a capital call is due and noted that Adams Street has not had any default problems.

6. Roll Call

Members Present:

Linda Bedford (Vice Chair)

Mickey Maier

Marilyn Mayr

Dr. Sarah Peck

Dr. Dean Roepke (Chairman)

Members Excused

Donald Cohen

Roy Felber

Jeffrey Mawicke

At the request of the Chairman, the Secretary took roll call and determined that a quorum was present.

7. Marquette Associates, Inc. Report

Mr. Caprio reviewed ERS's performance as of December 31, 2008 and January 31, 2009. He reported that ERS had a market value of \$1.196 billion on December 31, 2008. He compared ERS's actual allocation figures to the target figures. He noted that ERS had a 50% actual fixed income allocation compared to a 42% target allocation.

Mr. Caprio stated that ERS's portfolio decreased in value by 10.9% in the fourth quarter and 22.1% for 2008, but noted that ERS was in the 22nd percentile for the fourth quarter and 2008 when compared to all funds with greater than \$1 billion in assets included in the Wilshire Cooperative Index. He also indicated that ERS is in the top quartile over a ten year period compared to funds with greater than \$1 billion in assets. Mr. Christenson commented that 2008 was tough for all investors and diversification did not work because the entire market was affected by the economic environment.

Mr. Caprio reviewed the performance of each asset class for 2008. He indicated that international equity outperformed its benchmark, losing 30% in 2008 compared to the benchmark's loss of 43.1%. He reviewed the performance of each investment manager for 2008 and stated that outperformance is highlighted in yellow. He noted that ERS's managers generally performed well in 2008. He stated that Loomis had a very poor 2008 with a loss of 7.9% compared to a gain of 5.2% for the benchmark. He indicated that

Boston Partners outperformed its benchmark by 3% and both of the strategies managed by Artisan Partners performed at or above their benchmarks.

In response to a question from Mr. Grady, Mr. Christenson stated that no managers stand out as needing immediate attention, but noted that Marquette may suggest macro-level and top-down changes in asset allocation which might result in manager changes, but not because of performance per se. He indicated that ERS performed better than its peers in 2008 because of its conservative asset allocation and having more assets allocated to fixed income than its peers.

Mr. Caprio reviewed ERS's performance for January 2009. He stated that ERS had assets of \$1.143 billion at the end of January. He indicated that ERS's portfolio decreased in value by 3.8% in January, which outperformed the benchmark by 120 basis points. He noted that ERS outperformed the benchmarks in all asset classes.

Mr. Christenson pointed out that January 2009 was the worst stock market performance in history for the month of January. Mr. Caprio compared the actual asset allocations against their targets. In response to a question from Ms. Riley, Mr. Christenson stated that Marquette does not recommend reallocating at the present time, but indicated that Marquette will discuss reallocating ERS's portfolio at the next Pension Board meeting.

Mr. Caprio reviewed ERS's investment manager's performance gross of fees. He stated that Loomis and GMO were the only managers to underperform their benchmarks in January. He commented that GMO's underperformance was surprising considering that GMO performed extremely well in 2008.

Mr. Christenson presented Marquette's recommendations on the investment of the funds that would be received from the issuance of pension obligation bonds. He indicated that the pension obligation bonds are anticipated to be issued in mid to late March. He commented that it is very common to implement a cash overlay program when a large amount of assets need to be invested quickly. He explained that a fund wants to avoid investing the money too quickly and then being forced to reallocate funds, which would result in high transaction costs. He stated that a fund does not physically invest the funds using managers in a cash overlay program, but rather uses futures. He noted that there is a minor cost to purchase futures, but that cash remains in cash until the Pension Board decides to invest the funds using a manager. He pointed out that the futures contemplated would not be leveraged and would be fully collateralized. He stated that futures are traded through a clearinghouse and reported that there never has been a default in the futures industry. He stated that ERS would pay or get paid through a clearinghouse.

Mr. Christenson reiterated that ERS would be fully collateralized on the \$400 million contemplated to be in the cash overlay program and that there would be no margin or leverage. He stated that a cash overlay program would give the Pension Board time to choose managers to invest the pension obligation bond proceeds. In response to a

question from Ms. Mayr, Mr. Christenson reviewed the risks of using a cash overlay program. He indicated that there is: (1) market risk, which is loss caused by the performance of the markets; (2) futures risk, which is caused by the use of a counter-party; and (3) extraordinary daily event risk. He stated that ERS's former investment consultant recommended dollar cost averaging the pension obligation bond funds into the market at a rate of 10% every two weeks. Mr. Christenson stated that he discussed this topic at the Investment Committee meeting and noted that Marquette suggests releasing the funds at a rate of 5% per week (\$20 million per week) over the same five-month period to spread daily event risk. ERS avoids daily event risk by not being fully invested. He acknowledged that ERS will be out of compliance with its investment policy statement, but noted that this is the only way to implement a cash overlay program because it would be imprudent to invest all of the money as soon as it is received. He noted that \$400 million would represent more than 20% of ERS's assets.

Dr. Peck stated that there is a risk of being uninvested, or invested only in cash, if markets recover. Mr. Christenson agreed, stating that ERS would miss a rebound if funds were left uninvested in cash but noted ERS will avoid daily event risk. He indicated the cash overlay program will give ERS market exposure on a portion of the pension obligation bond funds as these funds are released in the cash overlay program.

In response to a question from Mr. Kreklow, the County's budget director, Mr. Christenson stated that the plan would be to invest the pension obligation bond funds in futures at a rate of 5% per week, keeping the remainder in cash, until the Pension Board allocates the pension obligation bond proceeds to investment managers. Mr. Christenson pointed out that the overlay amount would be reduced as the Pension Board makes any asset allocation changes and allocates the funds to specific investment managers. He commented that ERS can make capital calls for cash flow from the cash overlay amount. In response to a question from Ms. Bedford, Mr. Christenson stated that all the pension obligation bond funds would go into a separate custodial account at The Bank of New York Mellon.

In response to a question from Ms. Mayr, Mr. Christenson stated that Marquette also recommends using a cash overlay manager for the normal amount of cash ERS holds and the uninvested cash held by the U.S. equity portfolio. He explained that uninvested cash is a drag on the portfolio's performance because the market is expected to outperform cash. He indicated that the U.S. equity portfolio has 1% uninvested cash, which is in addition to the uninvested cash in ERS's checking account. He stated that Marquette suggests that ERS overlay all excess cash assets in either the S&P 500 or Russell futures to stay fully invested. He indicated that an additional advantage is that ERS can keep more excess cash for cash flow to pay benefits and for capital calls and still be fully invested. The Chairman directed Mr. Mueller to further review this issue with the Investment Committee and Marquette.

Ms. Mayr asked what the downside risks are to such a program and how the program has fared over the last six months. Mr. Christenson stated that the downside is market risk, which is worse in bad market environments. He indicated that the other alternative is to earn modest interest. In response to a question from Mr. Yerkes, Mr. Christenson reported that the average transaction cost in a futures transaction is 14 basis points. He indicated that tracking error could exist and affect the expected returns because futures do not track indexes perfectly.

Mr. Manske inquired on the limits on the cash overlay manager. Mr. Christenson advised that there will be contractual limitations and Marquette can monitor performance on line. He noted that he will attempt to get the cash overlay manager to agree to be a fiduciary in the contract and to have the investment manager stay within certain guidelines. In response to a question from Mr. Manske, Mr. Christenson stated that Marquette is not recommending using a cash overlay manager to rebalance, but only for uninvested cash and the pension obligation bond funds received. In response to a question from Mr. Kreklow, Mr. Christenson stated that Marquette believes the best asset allocation is the current fund allocation, which is comprised of almost 50% fixed income.

Mr. Christenson described the request for proposal process for the cash overlay manager position. He stated that a request for proposal questionnaire was sent to four cash overlay managers. In response to a question from Mr. Grady, Mr. Christenson advised that there are very few cash overlay managers and that State Street did not respond. He noted that Marquette received responses from The Bank of New York Mellon, The Clifton Group and Russell Investments. In response to a question from Ms. Mayr, Mr. Christenson stated that the cash overlay manager request for proposal was discussed at the last Investment Committee meeting. The Chairman pointed out that the Pension Board is just soliciting responses from, and has not hired, a cash overlay manager. Mr. Grady advised that the issuance of the request for proposal did not bind the Pension Board and a request for proposal was issued because there would not be enough time in March to select a cash overlay manager before ERS receives the pension obligation bond money because the pension obligation bond sale is anticipated to take place on March 19, 2009. In response to a question from Ms. Mayr, Mr. Grady advised that the only cost of issuing the request for proposal was the cost of an advertisement in the *Daily Reporter*. Mr. Christenson said there was a concern that if the Pension Board waited until the March 18 Pension Board meeting to discuss the issue, the cash received would sit idle until the Pension Board could act at a meeting. He stated that the main issue, based on Marquette's experience, is that a cash overlay investment management agreement is relatively complicated and may take a number of weeks to draft.

In response to a question from the Chairman, Mr. Heer stated there has been sufficient communication between the County, the Pension Board and Marquette to make the process run smoothly and ensure that the pension obligation bond proceeds will be invested properly. Mr. Heer indicated that the primary focus of the Pension Obligation

Bond Work Group is the issuance of the debt and developing an explanation of how the Pension Board will deal with the pension obligation bond funds. Mr. Grady advised the Pension Board that he attends the Pension Obligation Bond Work Group meetings, the Investment Committee meetings and the Pension Board meetings to facilitate links and communication among the groups. Ms. Mayr requested that the Pension Obligation Bond Work Group prepare a report on its findings.

Mr. Grady stated that the County is listening to how the Pension Board is planning on dealing with the assets to determine how the funds would be invested, and the County would intervene if the Pension Board proposed unreasonable treatment of the funds. Mr. Kreklow indicated that the County is performing its due diligence and noted that Mr. Arena has been helpful in facilitating the communication between the Pension Board and the County regarding the pension obligation bonds. Mr. Heer stated that the Pension Obligation Bond Work Group would notify the County Board of Supervisors if there are concerns about how the Pension Board intends to invest the assets because other investment alternatives are available.

Mr. Christenson recommended that the Pension Board select a cash overlay manager and direct the Pension Board's legal counsel to finalize an investment manager agreement so the Pension Board can discuss the issue at its March meeting. Mr. Christenson responded to Ms. Bedford's question regarding why a request for proposal was issued instead of negotiating with The Bank of New York Mellon as part of the current custody contract. Mr. Christenson advised that a custodian agreement is different than a cash overlay agreement. He also indicated that Marquette had initial concerns about The Bank of New York Mellon program, including the possible use of broker-dealers, but through the request for proposal process Mr. Christenson discovered that The Bank of New York Mellon does not recommend using broker-dealers for the cash overlay program, and his concerns were alleviated. He stated that Marquette is fully satisfied that there are no conflicts of interest at The Bank of New York Mellon's Beta Management Group.

Mr. Christenson reviewed the responses received to the request for proposal for cash overlay management services. He reported that Russell Investments has been providing cash overlay management services for 23 years, and is a large investment consulting firm that provides cash overlay services for its large clients. He indicated that The Clifton Group is a mid-size firm that has been providing these services for 35 years. He noted that The Bank of New York Mellon has been providing cash overlay management services for 26 years. He stated that based on an average of \$237 million to be invested for the pension obligation bonds cash overlay management services, Russell would charge \$143,000, Clifton would charge \$125,000 and The Bank of New York Mellon would charge 2.5 basis points, which would be approximately \$60,000. He also discussed the proposed fees for managing uninvested cash. He noted that Clifton's and Russell's prices seemed high. He reported that Clifton made a presentation to the

Investment Committee and that Marquette is comfortable with all three candidates. He stated that Marquette recommends selecting the Beta Management Group of The Bank of New York Mellon as cash overlay manager.

In response to a question from Mr. Maier, Mr. Christenson stated that the Beta Management Group was rated the top transition manager by *Global Pension*.

Mr. Christenson suggested using one contract for cash overlay services for the pension obligation bond funds and uninvested cash. Mr. Grady reported that Mr. Huff's law firm has attorneys who have drafted these types of agreements and will be preparing a draft cash overlay agreement. In response to a question from Ms. Mayr, Mr. Manske stated that the County's Treasurer does not use a cash overlay manager.

In response to a question from Mr. Loeffel, Mr. Christenson stated that he was surprised at how low The Bank of New York Mellon's fee quote was compared to Clifton's. Mr. Christenson noted that The Bank of New York Mellon's fee was lower than expected, but verified the quote with The Bank of New York Mellon. He indicated that he expected Russell's fee quote to be high. In response to Ms. Riley's questions, Mr. Christenson advised that The Bank of New York Mellon does not have discretion with respect to futures. Mr. Christenson explained that using a cash overlay manager is a better long-term investment option compared to investing in cash because a cash overlay is expected to have better performance over the long-term, except for down market years like 2008. In response to a question from Mr. Loeffel, Mr. Christenson advised that The Bank of New York Mellon has a complete understanding of the requirements contained in the request for proposal.

In response to a question that arose at the last Investment Committee meeting, Mr. Grady advised that the Pension Board does have authority under the Ordinances to invest in futures contracts. He indicated that the Pension Board will have to amend ERS's investment policy at the March meeting to allow investments in futures in order to participate in the cash overlay program.

8. Minutes of the January 21, 2009 Pension Board Meeting

The Pension Board reviewed the minutes of the January 21, 2009 Pension Board meeting.

The Pension Board unanimously agreed to approve the minutes of the January 21, 2009 Pension Board meeting. Motion by Mr. Maier, seconded by Ms. Bedford.

9. Waivers – Robert Nenno

Mr. Schroeder reported that four benefits waivers were submitted to the Retirement Office by Mr. Nenno, Deputy Director of Communications in the County Executive's Office.

The Pension Board unanimously agreed to accept the waivers presented by Mr. Nenno. Motioned by Dr. Peck, seconded by Mr. Maier.

10. Investment Committee Report

Dr. Peck reported on the February 2, 2009 Investment Committee meeting. She reported that the Investment Committee had a significant discussion regarding the use of a cash overlay manager. She indicated that the Investment Committee also discussed brokerage fees. She stated that the Investment Committee is going to ask investment managers to run a portion of their trades through discount brokers or brokers located in Milwaukee County. She indicated that Marquette will be sending out a letter to investment managers requesting their input on this topic. She noted that the Investment Committee is considering making directed brokerage a requirement for managers instead of a guideline or policy.

Dr. Peck stated that the Investment Committee discussed ERS's securities lending program. She indicated that Marquette reported that the 70/30 revenue split on securities lending seems reasonable and is standard in the industry.

11. RFP for Cash Overlay Manager

Mr. Christenson made a formal recommendation on behalf of Marquette that the Pension Board: (1) implement a cash overlay program for funds received through the issuance of pension obligation bonds to significantly reduce transaction costs and to gain market exposure while minimizing ERS's exposure to daily event risk; (2) invest the pension obligation bond funds in accordance with ERS's current asset allocation policy, with private equity and real estate being considered part of the U.S. portion of the asset allocation target; (3) invest the pension obligation bond funds at a rate of 5% per week; (4) implement an ongoing cash overlay program for excess uninvested cash with ERS's U.S. equity investment managers and excess cash in ERS's checking account consistent with the current asset allocation policy, with real estate and private equity being considered part of the U.S. portion of the asset allocation target; (5) allow a prudent amount of time to properly allocate funds to investment managers; and (6) use Bank of New York Beta Management Group as cash overlay manager, subject to successful contract negotiations and subject to confirmation at the March 2009 meeting.

The Pension Board unanimously agreed that, subject to confirmation at the March 2009 Pension Board meeting, to implement Marquette's formal recommendation regarding the use of a cash overlay manager for the pension obligation bond funds and uninvested cash. Motion by Dr. Peck, seconded by Ms. Bedford.

The Chairman stated that the use of the cash overlay program for excess cash should be put on hold pending a recommendation from Mr. Mueller to the Pension Board.

Ms. Mayr commented that the Pension Board should only use the services of a cash overlay manager if the Pension Board does not receive disapproval from the County Board through the Pension Obligation Bond Work Group.

Mr. Grady stated that the Pension Board's attorneys should begin drafting the cash overlay management agreement and Marquette should begin amending the investment policy to allow the use of futures.

Mr. Grady stated that Marquette should present the amended language in the investment policy allowing the use of futures at the Investment Committee meeting. Mr. Maier clarified that the investment policy should only allow the use of collateralized futures and not open-ended futures. The Chairman stated that the Pension Board should review this topic at the March 18, 2009 Pension Board meeting.

12. Vitech Project and Implementation Oversight Committee Reports

Mr. Arena discussed the issuance of the first checks distributed under the V3 System and the problems encountered during the process and their resolution. Mr. Pillai stated that 7,400 checks were generated and the system implementation and conversion went well. He reported that 27 manual checks were issued. He indicated that there was one issue regarding death benefits, some issues with service credit hours transferring from the prior system and some issues with electronic funds transfers because either the account numbers were bad or the accounts were closed.

Ms. Mayr pointed out that 700 checks did not provide all of the information on various contributions. Mr. Pillai indicated that he is working on a solution. He also noted that the issue relating to employee contributions being doubled on Form 1099-R has been addressed in the latest *Communicator* newsletter. He also reported that the issue relating to missing information on manual checks has also been rectified. Mr. Arena commented that the team is better able to address any issues because the number of telephone calls from retirees with questions has decreased.

Mr. Pillai reported that the life and health module funded by the County finished under budget by approximately \$3,000. He indicated that the Vitech portion funded by ERS is also expected to be below budget. He noted that he has withheld payment to Vitech to make sure the V3 System works. He commented that there is some remaining work, such as logging discrepancies with Vitech, which will be fixed at Vitech's expense for a pre-determined period of time.

Mr. Pillai reported that he is beginning self-service testing, and his intent is to review user requirements. He stated that he plans to have a test user group finished in the second quarter of 2009. He indicated that he will provide a quick demonstration of the V3 System and review the major processes at the March Pension Board meeting.

13. Chair and Vice Chair Selection Process – Proposed Rule 1041

Mr. Grady distributed and discussed proposed Rule 1041 - Chair and Vice Chair Selection Process. He pointed out that Rule 1041 creates the position of Vice Chair. He stated that the Rule gives the Pension Board the option of electing a new Chair immediately if the Chair leaves, or to wait to hold an election until a replacement member joins the Pension Board. He indicated that a person can nominate themselves for the position and no second is needed. He noted that Pension Board members will vote in alphabetical order by last name with the Chair voting last and a nominee needs five votes to be elected to the Chair or Vice Chair position. The Pension Board discussed the merits of having a newly elected Pension Board member become Chair.

The Pension Board unanimously agreed to adopt the proposed Rule 1041—Election of Chairperson and Vice Chairperson, attached to these minutes as Exhibit 1, with the election for Chairperson occurring at the next meeting after the Chairperson resigns from or is terminated from the Pension Board. Motion by Ms. Mayr, seconded by Mr. Maier.

14. Board Membership: Disqualification – Proposed Rule 1042

Mr. Grady discussed proposed Rule 1042—Board Membership—Disqualifications. He stated that a Pension Board member's term would cease immediately upon discovery that a disqualifying event has occurred. He provided some examples of disqualifying events, including an employee Pension Board member retiring or a retiree member becoming reemployed by the County.

The Pension Board unanimously agreed to adopt proposed Rule 1042—Board Membership—Disqualifications, attached to these minutes as Exhibit 2. Motion by Dr. Peck, seconded by Mr. Maier.

In response to a question from Ms. Mayr, Mr. Grady stated that a Pension Board member has a fiduciary duty to attend Pension Board meetings if possible, and in the event that a Pension Board member misses a high number of meetings, the Pension Board would need to go to court to have the member removed.

15. Annual Meeting Planning

Mr. Huff discussed the ERS 2008 Accomplishment handout and the Role and Structure of the Pension Board handout, which will be distributed at the annual meeting. Mr. Grady stated that the 2010 annual Pension Board meeting should be held during the second week of February and the February 2010 Pension Board meeting should be held during the third week of February.

The Pension Board unanimously agreed to hold the 2010 annual Pension Board meeting during the second week of February and hold the February 2010 Pension

Board meeting during the third week of February. Motion by Ms. Mayr, seconded by Mr. Maier.

16. Administrative Matters

The Pension Board discussed the merits of attending the Adams Street Partners investment conference on June 4, 2009 in Chicago.

The Pension Board unanimously agreed to authorize the attendance of any member who wants to attend the Adams Street Partners investment conference on June 4, 2009 in Chicago. Motion by Dr. Peck, seconded by Ms. Bedford.

17. Disability Pensions

(a) Applications

(i) Debra Gillespie – ODR

The Pension Board unanimously approved Ms. Gillespie's ordinary disability pension application based upon the recommendation of the Medical Board. Motion by Mr. Maier, seconded by Ms. Mayr.

(ii) Kathleen Merritt – ODR

The Pension Board unanimously approved Ms. Merritt's ordinary disability pension application based upon the recommendation of the Medical Board. Motion by Mr. Maier, seconded by Ms. Mayr.

(iii) Annie Katherine – ODR

The Pension Board unanimously agreed to deny Ms. Katherine's ordinary disability pension application based upon the recommendation of the Medical Board. Motion by Mr. Maier, seconded by Ms. Mayr.

(b) Disability Pension Medical Reevaluation

Mr. Schroeder stated that in July 2008 the Audit Committee directed the Retirement Office to review the 43 backlogged medical reexaminations. He indicated that this review will be completed by the end of 2009. The Chairman inquired whether the ERS needs to issue a request for proposal with the Medical Board. Mr. Schroeder stated that he does not anticipate the need to issue a request for proposal because he expects the medical review expense to be under \$20,000 in 2009. Mr. Grady indicated that he is working with Mr. Schroeder to prepare a written agreement with the Medical Board.

18. Mark Ryan Claim Appeal

The Chairman reported that this item has been adjourned to the March Pension Board meeting at Mr. Ryan's request.

19. Pending Litigation

The Pension Board noted that there are no updates in the pending litigation: *Milwaukee County, et al. v. Mercer Human Resource Consulting*.

20. Report on Special Investigation

In open session, the Pension Board noted that there is nothing new to report regarding the special investigation.

21. Report on Compliance Review

In open session, the Pension Board stated that there is nothing new to report regarding the compliance review.

22. Adjournment

The meeting adjourned at 12:25 p.m.

Submitted by Steven D. Huff
Secretary of the Pension Board

EXHIBIT 1

AMENDMENT TO THE RULES OF THE PENSION BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

RECITALS

1. Section 201.24(8.1) of the General Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").
2. Ordinance section 201.24(8.6) allows the Pension Board to establish rules for the administration of ERS.
3. Ordinance section 201.24(8.8) provides, in relevant part, that the Pension Board shall elect a chairperson from among its membership.
4. The Pension Board has a longstanding practice of the chairperson continuing in office without a regular process for re-election to that office. The Pension Board believes that it is appropriate for the Board to periodically elect or re-elect its chairperson in order to provide new members with input into this selection, among other reasons.
5. The Pension Board has determined that it does not have a consistent past practice with respect to electing a Vice Chairperson and believes that it is appropriate to establish the position of Vice Chairperson and a policy for election of that person.

RESOLUTIONS

1. Pursuant to Ordinance section 201.24(8.6), the Pension Board hereby creates and adopts Rule 1041 to read as follows:

1041. Election of Chairperson and Vice Chairperson

(1) (a) In the event the Chairperson resigns the position of Chair, or in the event the Chairperson's membership on the Board is terminated for any reason, the Vice Chairperson shall serve as the acting Chairperson until a Chairperson is elected. The Board shall hold an election to select the Chairperson at the next meeting.

(b) In the event the Chairperson of the Board serves until the end of his or her term, whether a full or partial term, and then is re-elected or re-appointed for a new term, the Pension Board shall hold an election for Chairperson from among its members at the next Board meeting following the Chairperson's re-election or confirmation of appointment as a member.

(c) A member of the Board may at any time make a motion to hold an election for the Chairperson or Vice Chairperson. If the motion passes, an election shall be held at the next Board meeting.

(2) (a) The Pension Board hereby establishes the position of Vice Chairperson of the Board. The Vice Chairperson shall perform the duties of the Chairperson whenever the Chairperson is unable to do so.

(b) Whenever an election of Chairperson is called for by section (1), then, at that same meeting and subsequent to electing a Chairperson, the Board shall elect a Vice Chairperson.

(c) In the event the Vice Chairperson resigns the position of Vice Chair, or in the event the Vice Chairperson's membership on the Board is terminated for any reason, the Board shall elect a Vice Chairperson at its next meeting.

(3) Any election of Chairperson or Vice Chairperson provided for in subsections (1) or (2) shall be governed by the following provisions:

(a) A member may nominate himself or herself for the position of Chairperson or Vice Chairperson.

(b) Nominations for either position shall not require a second.

(c) The election for either position shall be conducted by roll call vote in alphabetical order by last name, except that the acting Chairperson shall vote last.

(d) Any vote for election is governed by §201.24(8.5) of the ordinances.

(4) A member may serve as Chair or Vice Chair for any length of time, subject only to the limitations on membership set forth in §201.24(8.2) of the ordinances.

Effective upon adoption on February 11, 2009.

EXHIBIT 2

AMENDMENT TO THE RULES OF THE PENSION BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

RECITALS

1. Section 201.24(8.1) of the General Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").

3. Ordinance section 201.24(8.6) allows the Pension Board to establish rules for the administration of ERS.

3. Sections 201.24(8.1) and (8.2) of the General Ordinances of Milwaukee County (the "Ordinances") provide for qualifications to be an elected or appointed member of the of the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board").

4. The Pension Board has previously addressed by adopted motion the question of whether a member elected from among the active employees may continue to serve the balance of his or her term as a member after retirement. The Pension Board believes that it is appropriate to adopt the following rule to document its policy in this and similar situations.

RESOLUTION

1. Pursuant to Ordinance section 201.24(8.6), the Pension Board hereby creates and adopts Rule 1042 to read as follows:

1042. Board Membership – Disqualification.

(1) If a Board member ceases to meet any of the qualifications required when the member was elected or appointed, the individual's membership on the Board is immediately terminated. When a Board member knows, or has reason to believe, that he or she no longer meets the qualifications for his or her Board membership, a member shall immediately notify the Secretary of the Board. Upon learning that

a member no longer meets the qualifications for his or her Board membership, the Board shall schedule an election to replace an elected member or shall notify the authority that appointed that member.

Effective upon adoption on February 11, 2009.